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C O N F I D E N T I A L SECTION 01 OF 03 NICOSIA 000610

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FOR EUR/SE

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TAGS: CY PGOV PREL TU

SUBJECT: CORRUPTION SCANDAL CRIPPLING "TRNC GOVERNMENT"

REF: A. NICOSIA 00497

1B. NICOSIA 01691

Classified By: Ambassador Ronald L. Schlicher for reasons 1.5 (b) and (d)

11. (C) Summary: The "parliament" of the self-proclaimed "Turkish Republic of Northern Cyprus" ("TRNC") officially entered its summer break on July 13, but the "government," led by "Prime Minister" Ferdi Soyer's Republican Turkish Party (CTP), will find the summer months to be uncomfortable.

CTP's junior "coalition" partner is tainted by allegations of corruption, prompting most commentators to suggest the "government" is unlikely to be able to continue under its current configuration. The uncertainties of the election atmosphere in Turkey, combined with a difficult seat distribution in "parliament," gave CTP little room to maneuver. Though there are still some outcomes by which CTP could save face, all come with political cost and risk: possible scenarios include a reforging of the CTP-DP alliance, a very improbable CTP-UBP "grand coalition," or a minority CTP "government," limping toward early elections.

End Summary.

SCANDAL...

12. (SBU) Details of possible misuse of office on the part of two "ministers" from the Free Reform Party (OP) have steadily accumulated in the press for several months and compounded the previous embarrassment of having had their "Economy Minister", Enver Ozturk, ejected from "government" under a cloud of corruption (ref A). The new allegations against the "ministers" center on murky land transfers to the Variant company, an arm of Turkey's appliance manufacturer, Alarko, represented on the island by Ahmet Ozcag. The allegations crystallized when audio recordings of Ozcag hit the press, in which he apparently claimed his company had given \$2 million in bribes to OP "ministers" to gain a contract to build a luxury hotel. In subsequent interviews, Ozcag modified his story; he claimed that the money was loaned to the OP to assist in its founding -- OP was created in September of 2006 by a handful of politicians who quit the right-wing opposition parties to forge a coalition "government" with CTP -- and that the new party, in return, offered to transfer land to Variant as repayment, an offer Ozcag claims was refused.

13. (SBU) Both "Deputy Prime Minister and Foreign Minister" Turgay Avci and "Environment Minister" Asim Vehbi are

believed to be involved in the alleged wrong-doings. Ozcag also named Ahmet Yonluer, the head of the "Directorate of Religious Affairs", as an intermediary for some of the funds transfers. Previous rumors had it that Yonluer was a go-between among OP, CTP, and Turkish Prime Minister Recep Tayyip Erdogan, who had an interest in seeing a "TRNC government" less constrained by nationalist and military interests than the previous CTP-DP coalition. Since Ozcag's allegations, the press has also aired recordings of a furious Yonluer threatening to pull strings to have Vehbi removed from office, suggesting the rumors of Yonluer's political role may carry some element of truth. Other allegations accuse the OP "ministers" of being involved in a scheme to illegally raise money by selling large numbers of lottery tickets to businessmen seeking to curry favor with the "government."

¶4. (SBU) The scandal inconveniently gathered steam during the early summer, providing fodder for the otherwise dull front pages of the Turkish-language Cypriot press. Ongoing, ill-defined protests against the "government" by labor unions on both the left and the right of the political spectrum adopted the corruption issue as a focus of their discontent, and have been calling for the dissolution of the "government". Meanwhile, Avci attempted to defend himself in a protracted speech in "Parliament", but only appears to have dug a deeper hole for himself. Avci admitted to having done personal business with Ozcag, but claimed -- in the vaguest possible terms -- his actions as a "government minister" were entirely innocent and legitimate. He then went on to win no friends by trying to spread blame for rampant corruption on his former colleagues in the opposition, who he claimed had been feeding at the "government" through unchecked for many

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more years than had been OP.

¶5. (C) For his part, "Director of Religious Affairs" Ahmet Yonluer professes his innocence. In an animated meeting with Poloff on June 29, the mufti claimed there were "dark forces" -- suggesting an alliance of former "TRNC President" Rauf Denktash and Turkish military officers -- who want him removed from his position and who jumped at the opportunity of a shady scandal to tar his good name. Yonluer conjured a far-fetched scenario in which these dark forces may also be trying to tarnish Turkish PM Erdogan, whom he considers a good friend, in the final weeks before elections in Turkey.

...AND ITS DISCONTENTS

¶6. (C) Embassy contacts and the press are in near-unanimity that the OP scandal has festered to the point that "PM" Soyer must do something tangible or risk damaging the CTP's reputation. Omer Kalyoncu, General Secretary of the CTP, in a meeting on June 21 agreed that the scandal reflects badly on the "government" and, therefore, on the CTP, but noted that there was not much the "government" could do until either OP sorted out its own house or until an investigation could be held. He also foreshadowed Avci's performance in "parliament," intimating that the corruption problem is endemic to the right-wing parties in the "TRNC." Both the National Unity Party (UBP) and Democrat Party (DP) have been just as badly behaved while serving in "government", and OP is cut of the same cloth.

¶7. (C) Opposition politicians have been less charitable, condemning the OP "ministers" and lambasting the CTP for tolerating them for far longer than it should. Kenan Atatol, a former UBP "Foreign Minister," told Poloff in a June 28 meeting that CTP should not have been in the least bit surprised by the scandal, claiming that the OP members are

the worst kind of politicians: opportunists who are willing to sell out their professed loyalties for power and money. A fellow UBP member, Hasan Tacoy, echoed this sentiment, claiming that the OP members had already resigned in spirit and were weathering the storm until they could find a more opportune time to officially leave the "government". Kudret Akay, an advisor to DP chairman Serdar Denktash, saw the situation in a similar light, claiming in a July 5 meeting that the CTP-OP coalition's days are numbered. The predictions of Tacoy and Akay may have been hasty, though, as the "government" has managed not only to limp into the summer recess but also to pass a controversial social security law on its way out the door. But the dwindling clout of the "government" has been demonstrated in its inability to forge a package of constitutional and legal reforms in a series of meetings with the leaders of the opposition.

¶8. (C) There are a handful of possible solutions to CTP's woes. The most tantalizing is the possibility of a CTP minority government supported by DP. Kudret Akay claims that DP offered this solution in exchange for a bevy of "legislative" and "electoral" law reforms -- designed to remove the incentives that encourage the formation of renegade parties, such as the OP -- coupled with a commitment to early elections. Though Akay claims both CTP and UBP are cautiously supportive of the idea, much like the other tripartite meetings, the plan appears to be bogging down in the details. Rumors of DP replacing OP in the "government" -- an arrangement that could buy "President" Talat some political space with his critics among nationalist circles and the Turkish General Staff -- are also making the rounds. In a meeting with Poloff on July 3, Serdar Denktas flatly denied that such a solution was in the cards; however, former DP "Economy Minister" Dervis Deniz, in a subsequent meeting with Econoff on July 18, claimed that coalition discussions are still ongoing. The only other viable possibility, a grand unity "government" involving both CTP and UBP, floated as possible by some of the protesting labor unions, seems highly unlikely given the many ideological differences between the two parties.

COMMENT

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¶9. (C) CTP is clearly playing for time, staggering on until after Turkish politics becomes clearer after Turkey's July 22 elections. Its alliance with the opportunistic OP allowed CTP greater flexibility in forming policy -- particularly on "public sector" reform and a Cyprus solution -- than it had in its previous coalition with DP (ref B). The cost that came with this increased flexibility, however, has come at an inconvenient time; with little progress in Cyprus negotiations, CTP is in the uncomfortable position of either having to place itself back in a restrictive alliance with DP or going to the polls under a shroud of "guilt-by-association" with the corrupt OP.

¶10. (C) Making the situation more difficult is the atmosphere created by the Turkish elections. Neither CTP nor Turkey's governing Justice and Development Party (AKP) wanted Cyprus to become a campaign issue in Turkey, thereby inflaming anti-solution nationalist sentiments just before the polls. According to Deniz, many believe that Erdogan explicitly instructed the CTP to maintain the status quo until after July 22, a belief consistent with how political events have unrolled. If CTP can reclaim the initiative during the summer, settle a clean divorce from OP, and install a workable "government," it may yet emerge from the OP scandal mostly unscathed. Much will depend, though, on the willingness of the opposition players to cooperate. The difficulties in the CTP-UBP-DP negotiations may be the result

of the parties jockeying for position for when the Turkish political logjam breaks. There is the risk, however, that the jockeying may take on a momentum of its own, poisoning the atmosphere even after Turkey's elections. If negotiations falter, CTP may be forced to maintain the status quo through the summer recess and, then, open the next "legislative" year staggering toward a possible no-confidence vote and early elections. Both these scenarios would make significant progress on the UN track even more difficult to broker.

SCHLICHER